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AMBASSADOR CLAYTON YEUTTER

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ADDRESS TO THE

World Economic Forum

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I'm very pleased that the World Economic Forum has provided me with my first opportunity to address a European audience since becoming the United States Trade Representative on July 1. As you know, I had hoped to be here sooner, in September, but had to cancel that trip when President Reagan decided to take some tough new trade actions on September 7.

We meet at a time of critical importance to international trade. The problems are serious and the challenges are many. But these problems and challenges can -- and must -- be seen as opportunities to improve the world trading system.

Since World War II, world trade has expanded enormously, bringing undreamed-of prosperity to the industrialized nations and immense opportunity to the developing world. The tremendously complex set of trade relationships that binds our nations together has been a boon to all of us. These past four decades have demonstrated that it is in the best interest of all nations to foster a fair, open and efficient world trade system.

Yet, despite the obvious benefits of open markets, the international trading system is beset by serious problems. Increasingly, countries are using unfair export subsidies and non-tariff import barriers to achieve advantages over their trading partners. If we allow such impulses to grow globally, all of us will suffer, because world trade ultimately will decrease. Fifty years ago, the world fell into an escalating trade war that contributed to the deepening and lengthening of a world-wide depression. Today, in an even more interdependent world, such a trade war would be even more disastrous.

Much of the credit over the past 37 years for avoiding those kinds of trade wars and vastly expanding world trade must go to a proud institution here in Geneva -- the General Agreement on Tariffs and Trade (GATT).

The GATT system has permitted enormous growth of world trade by reducing trade barriers to the benefit of all trading nations. Its success is based on a framework of rules and commitments that up to now have been widely accepted as fair.

Six years have elapsed since the end of the last round of trade negotiations. In the intervening period, world trade has been buffeted by recessions, debt crises, fluctuating energy prices, volatile exchange rate movements, and a growth in trade restrictions to deal with payments problems.

Moreover, the unstoppable march of progress has brought about a significantly different world economy than that of a decade ago. Services, for which there are virtually no trading rules, are much more important now than when we planned the last GATT round. Research and development is far more crucial to the new high tech industries, so we need stronger rules on intellectual property. In addition, the Tokyo Round provided only a first cut on issues such as subsidies, government procurement, and dispute settlement. And agricultural trade worldwide is in total disarray.

Because the rules governing multilateral trade have not kept pace with world economic changes, trade is far from reaching its potential for good. Last month, the GATT itself predicted a substantial decline in trade growth for 1985 even though there were no major recessions or economic slowdowns. If these estimates come true, 1985 will be one of the few years in which global trade has grown more slowly than world output. This alarming forecast makes it clear that the core of the multilateral trading system -- the GATT -- is in urgent need of repair. There is both old business, required to improve and strengthen existing provisions, and new business, to extend the GATT to new areas and to deal with new problems affecting world trade.

I'm confident that by working together we can strengthen the GATT and prevent a wave of protectionism from overwhelming the world trading system. The major industrialized nations are in full agreement that a new round of multilateral negotiations in the GATT is absolutely essential. It was a fine cooperative effort among the forward-looking nations at the GATT contracting parties' meeting last month that led to the scheduling of a Preparatory Committee as a major first step toward such a new round. But as that meeting showed, we have yet to approach a full consensus within the world community on what our global trade priorities should be; so we need to work toward that objective.

We absolutely must convince the developing countries that their own economic progress depends on a healthy expansion of international trade, and that a comprehensive round of GATT negotiations is essential to achieving that goal. The LDCs should, and will, press for more open markets in the developed world for their manufactured goods. But they must realize this is an unrealistic objective if they simultaneously reject efforts to reduce their barriers to investment flows and to the free flow of trade in services. Special treatment for the developing nations is now a well accepted practice of the GATT, but a free lunch is just not in the cards.

As we continue our efforts to make the GATT functional for the twenty-first century, we must begin to concentrate on the international macroeconomic fiscal and monetary problems which have increasingly distorted world trade relationships over the past four years.

The most visible evidence of this distortion is the large and growing trade deficit suffered by the United States -- \$123 billion last year and possibly as high as \$150 billion for 1985. In the U.S., much attention has been focused on the large bilateral trade deficit with Japan -- \$37 billion last year. But the fact is, while our deficit with Japan increased by \$18 billion between 1982 and 1984, our trade balance with Europe deteriorated by a larger amount -- \$22 billion -- over the same period. And our trade balance with developing countries deteriorated even more -- \$31 billion.

The U.S. trade deficit has grown in large part because of significant improvements in the U.S. economy. Unfortunately, the U.S. recovery has not been matched by our major trading partners and our demand for imported products has increased much faster than theirs. At the same time, America's economic performance and political stability has made our nation more attractive to investors, increasing the value of the dollar with respect to other currencies and exacerbating the trade imbalance. This large net foreign investment in the U.S. economy has bid up the dollar's value, making our imports cheaper and our exports more expensive.

We do not plan to change the policies which created our strong economic growth and secondarily increased the value of the dollar. But we are committed to reducing our federal budget deficit by cutting government spending.

By spending and borrowing less, our government would free up funds for private sector investment. This would allow for a further lowering of interest rates, some outflow of foreign capital, and a concomitant weakening of the dollar.

But the U.S. trade deficit does not result solely from American macroeconomic policies. Other nations have contributed to this global problem, and they too must share in the solution.

Most European countries, for example, have pursued policies in recent years which have produced disappointing economic growth. The U.S. has created eight million new jobs in the past two and a half years, whereas Europe has created virtually none. Because investment opportunities in Europe have been perceived as being less attractive than those in some other countries, capital has flowed out -- much of it to the U.S. As a result, between 1982 and 1984 the U.S. saw its current account and trade account balances with Europe deteriorate tremendously.

Europe's trade surplus with the U.S. has helped generate at least some internal economic growth. But over the long term, sustainable growth in western Europe must come from increased capital investment. That will require policy changes by European governments, the secondary result of which should be an improvement in the U.S. trade balance with them.

Less developed countries (LDCs) have similarly benefitted from our macroeconomic policies. Foreign exchange earnings are indispensable in managing the crushing debt burden of many LDCs, but the U.S. cannot continue to provide the largest part of those earnings. The present situation has placed intense strains on import-sensitive industries in the U.S., leading to understandable cries for import relief.

If we are to avoid a political explosion in this sensitive area, European countries and Japan must take a much larger share of LDC exports. For their part, developing countries need to reduce the economic burden of government in their economies, thereby stimulating badly needed private sector growth. They must encourage domestic savings and foreign investment.

Japan's economic growth rate has slowed somewhat, though it remains quite strong compared to most nations. But the Japanese savings rate is so high that its huge capital surplus is exported, mostly to the U.S. Japan must take steps to stimulate domestic demand and promote investment, particularly in social infrastructure such as housing. Such steps will strengthen the yen vis-a-vis the dollar, resulting in more imports of foreign goods. Most of the macroeconomic policy changes I've just mentioned already have been agreed to by the participants in the Bonn Economic Summit last May and by the G-5 nations at the Plaza Hotel meeting in September. In addition, at its annual meeting in Seoul, the International Monetary Fund agreed that the LDCs need to grow their way out of debt, thereby increasing imports as well as exports.

As a result of these efforts, the value of the dollar has declined somewhat over the past few months. We believe this is a positive sign. However, intervention is a transitory solution at best and we will not see a long-term equilibrium in exchange rates until the basic policy changes that I've outlined have been implemented.

In the meantime, as we wait for a new round of multilateral trade negotiations and exchange rate revisions to take effect, protectionist pressures will remain strong in the U.S. More than 300 protectionist bills have been introduced in our Congress and several major pieces of legislation may reach President Reagan's desk. Nevertheless, if a bill is flatly protectionist, the President will veto it, just as he resisted heavy political pressure in his recent decision not to provide import relief for the U.S. footwear industry.

But as we are fighting protectionist impulses at home, we simply can't tolerate unfair trading practices abroad. Not even President Reagan can keep U.S. markets open if unfair trade practices among our trading partners go unchallenged.

In the last two months, the President has embarked on a more active approach to unfair trading practices. He has initiated or instructed me to accelerate six unfair trading practice cases against Japan, Korea, Brazil, and the European Community. These cases, brought under Section 301 of the U.S. Trade Act of 1974, represent unfair trade practices in the industrial, agricultural, and services sectors. He also ordered that a case be filed in the GATT against the EC's wheat subsidies.

These steps should not be interpreted as an aggressive provocation, but rather as a defensive strategy to correct longstanding inequities and to prevent protectionism. In the current context of a huge U.S. trade deficit, we cannot tolerate violations of our trading rights. (For that matter we should not tolerate them even if we have a trade surplus!) Though our frustrations are at a peak, and many industries are suffering severe job losses, we are strongly resisting the temptation to go protectionist. Under the circumstances, our trading partners should certainly do no less.

Perhaps in realization of this the European Community recently made a responsible offer to eliminate its canned fruit subsidies, solving the first of our six 301 cases.

Many of our trading partners have noticed that protectionist sentiment in the U.S. has abated somewhat since President Reagan's September 23 trade policy address. Some of the protectionist bills in Congress do not seem to have the level of support they did several months ago. However, the concept of "fair play" is rooted very deeply in the American consciousness; Americans become indignant when they believe other nations are not playing by the rules. Just because President Reagan appears to have contained American protectionism for now should not be taken as a signal by any country that it can let up on its obligation to avoid or remove unfair trade barriers.

The recent dispute between the U.S. and the EC over citrus and pasta is illustrative not only of the kind of unfair trade practices that Americans will not tolerate, but also of GATT procedural inadequacies which ought to be addressed in a new negotiating round.

For 16 years, the U.S. sought to resolve its complaint over preferential treatment granted by the EC to citrus imports from certain Mediterranean countries, to the disadvantage of U.S. citrus exporters. Eventually, we resorted to a formal action in the GATT and won a unanimous panel finding in our favor. But the EC blocked both the adoption of the GATT panel result and a negotiated settlement to the dispute.

Only after patiently exploring every possible alternative did the U.S. retaliate against the EC's preferences, on citrus by increasing U.S. duties on pasta imports -- which the EC had also been unfairly subsidizing. For reasons we find inexplicable and unpersuasive this action precipitated counter-retaliatory measures against our U.S. lemon and walnut exports.

Though the trade flows in this unfortunate controversy are not great, the citrus-pasta case is still important because it demonstrates all too clearly GATT's ineffectiveness in solving difficult cases. There is a saying in our country that "justice delayed is justice denied;" in our view, 16 years is far too long to wait for justice.

Of greater concern to us than individual cases, however, is the larger question of export subsidy programs, which have created chaos in international trade. Consider, for example, the economic trauma created in sugar exporting LDCs when subsidized EC sugar caused world prices to plummet to 3 cents/lb. earlier this year. It is imperative that we deal with this problem in the next GATT round.

In these areas and others, our goal must be to address serious trade problems in a way that is mutually beneficial. That means expanding trade opportunities, not limiting them. Fortunately, trade is not a foot race in which there is only one winner. For us to win, it is not necessary for our trading partners to lose. And for our trading partners to win, it is not necessary for the U.S. to lose. If we handle these issues and disputes properly, we can all win!

We will all prosper from expanded world trade. That's why we must work together to ensure that trade rules are fair and strictly enforced. We must also resist protectionism and unfair trade practices even when our own industrial and agricultural communities demand it. It takes strong leadership to resist the allure of protectionism. But we must be strong, because the stakes are high. The economic well-being of all the people of the world depend on our ability to preserve a vibrant world trade environment. Help us achieve that goal!